

BUSINESS

Oil and gas industry sets sights on a record-breaking 2018

Nathanial Gronewold, E&E News reporter

Published: Tuesday, January 2, 2018

HOUSTON — This year will be one for the record books for the U.S. petroleum industry.

Daily average U.S. crude oil production will likely hit a new high mark this year, if it hasn't already, breaking the 1970 record. Meanwhile, crude oil exports are poised to rise as domestic refineries remain amply supplied, while natural gas exporters will gain as major new liquefied natural gas export capacity is set to come online this year. Also in store: large new demand from new and expanding petrochemical production facilities.

So long as commodities prices hold, this year will likely prove the strongest for oil and gas business performance since the oil price crash that started in 2014. Drillers are increasingly feeling confident, as measured by several recent industry surveys. Brent international crude oil contracts have been trading at around \$66 per barrel. U.S. West Texas Intermediate crude pricing is at around \$60 per barrel.

"The energy sector is going into 2018 on a positive note," said economist Michael Plante of the Federal Reserve Bank of Dallas in a survey of business conditions. "Growth in activity rebounded a bit relative to last quarter, outlooks improved greatly, and there was a modest decline in uncertainty about the future. Responses were strong for both E&P [exploration and production] and support services firms this time around."

The Dallas Fed's oil and gas business activity index surged higher by nearly 40 percent in the fourth quarter of 2017. A separate barometer measuring unease in the industry actually fell during the same period, showing higher confidence and optimism overall, Fed economists report. Upstream E&P companies are in an upbeat mood, and that rosier outlook is beginning to spread in the oil field services sector, as well.

For sure, the industry has not completely rebounded. Oil and gas prices are still lower than before the price crash that started in 2014, and employment numbers are way down, even though 2017 saw a surge in new hiring as drilling picked up and companies made their operations more efficient. Many companies are only beginning to rid themselves of the red ink spilled when oil prices fell from \$100 per barrel to around \$30.

But in many ways, 2018 will look a lot stronger for the petroleum business than in past years, even compared to the era of \$100 oil. For starters, U.S. oil production will probably hit a new record, exceeding the 1970 annual average peak output of 9.64 million barrels a day.

The Permian Basin, now the center of the U.S. tight and shale oil revolution, has already exceeded its 1970s output records, according to researchers at the consultancy IHS Markit. The Permian plays of West Texas and southeastern New Mexico "reached a new oil-production record of 815 million barrels or more in 2017 — far exceeding its previous peak of 790 million barrels set in 1973," researchers there said in a note published last week.

They've dubbed the Permian to be one of the world's newest "super-basins," and though the Permian Basin remains a focus of ongoing geological research in academia and at IHS Markit, according to their latest report, "initial results indicate the giant basin still holds an estimated 60 billion to 70 billion barrels of technically recoverable resources — about twice as much as the cumulative oil production to date."

For the U.S. as a whole, forecasters at Rystad Energy think it's possible that the U.S. is already at a record high oil production figure, arguing that the effects of production shut-ins due to last year's Hurricane Nate may be skewing the figures somewhat. The company says a closer reading of data published by the Energy Information Administration (EIA) show record output figures.

"Data released today from EIA for October largely confirms earlier predictions by Rystad Energy that US oil production could reach 10 million barrels per day at the end of 2017," said Rystad marketing manager David White in an email Friday. "Strong growth of U.S. onshore production in October was masked by impacts of Hurricane Nate on offshore production in the Gulf of Mexico which was down as much as 250 thousand barrels per day below monthly capacity."

Export records poised to be broken, too

Hydrocarbon export records will also likely be broken this year. It's highly likely that the U.S. ended 2017 as a net exporter of natural gas. The gap between exports and imports will only widen in 2018 as new LNG export capacity comes online ([Energywire](#), Dec. 22, 2017).

In parallel with LNG export projects, 2018 will see the completion of a major buildout of new petrochemical production capacity along the Gulf of Mexico coastline. The joint venture Chevron Phillips Chemical recently christened its new ethane cracker at Cedar Bayou in

Texas. More facilities will join it, and not only in Texas or the Southeast.

Denise Brinley, energy adviser at the Pennsylvania Department of Community and Economic Development, said her state is excited about investments made by Royal Dutch Shell PLC to tap the gas-rich Marcellus Shale for petrochemical manufacturing. The state expects to enjoy an economic boost from the plant.

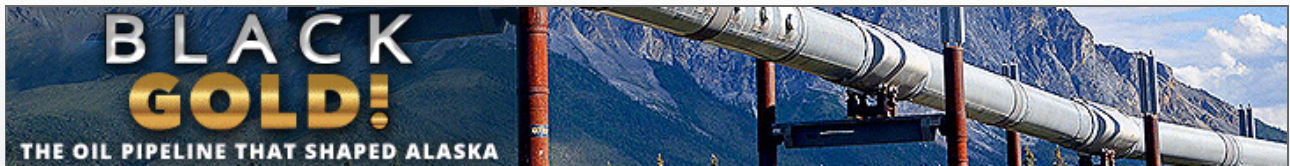
"Shell Pennsylvania Chemicals' announcement to locate in Beaver County is a game-changer for our commonwealth," Brinley said. "Shell's investment has been the catalyst for additional petrochemical prospects in the Marcellus-Utica shale play, including PTT Global Chemical in Belmont County, Ohio."

Brinley said hers and other neighboring states are not content to allow Texas and Louisiana to continue leading the nation's higher value-added petrochemical businesses. "Pennsylvania and our neighboring states of Ohio and West Virginia faced stiff competition from the investments in the Gulf Coast over the last several years," she said. "We are making every effort to ensure that additional ethane produced in the region, enough to support up to four additional ethane crackers, is not simply exported to other regions for petrochemical manufacturing."

The hundreds of billions of dollars being invested in petrochemicals should combine with LNG export projects to noticeably lift demand for natural gas, helping to improve natural gas prices in turn. Stubbornly low natural gas prices since at least 2008 played a part in encouraging the shale oil boom, beginning mainly in North Dakota before taking off in Texas, Oklahoma, Colorado and beyond.

Email: ngronewold@eenews.net

Advertisement



E&E NEWS

ENERGYWIRE

CLIMATEWIRE

E&E DAILY

GREENWIRE

E&E NEWS PM

The essential news for energy & environment professionals

© 1996-2018 Environment & Energy Publishing, LLC [Privacy Policy](#) [Site Map](#) [Contact Us](#)